



April 9, 2009

TO: County Executive, Santa Clara County
City Managers, Cities in Santa Clara County

FROM: Neelima Palacherla, *NP* LAFCO Executive Officer

SUBJECT: Proposed LAFCO Budget FY 2009-2010

At its April 8, 2009 meeting, LAFCO adopted its Proposed Budget for Fiscal Year 2009-2010. Please see the attached staff report and Proposed Budget for FY 2009-2010.

LAFCO is scheduled to adopt its Final Budget for FY 2009-2010 at a public hearing on Wednesday, June 3, 2009 at 1:15 pm. The hearing will be held in the Chambers of the Board of Supervisors at the County Government Center, 70 West Hedding Street, San Jose, CA 95110.

The County Auditor will bill the cities and the County for LAFCO costs based on the Final Budget adopted by LAFCO.

Should you have any questions about the attached staff report or the proposed budget, please contact me at (408) 299-5127 or email me at neelima.palacherla@ceo.sccgov.org.

Thank you.

Attachments:

Staff Report and Proposed LAFCO Budget for FY 2009-2010

cc: Board of Supervisors, Santa Clara County
City Council Members, Cities in Santa Clara County
Santa Clara County Cities Association

LAFCO Meeting: April 8, 2009

TO: LAFCO

FROM: Neelima Palacherla, Executive Officer

SUBJECT: **Proposed Draft LAFCO Budget FY 2009-2010**
Agenda Item # 6

STAFF RECOMMENDATION

1. Adopt the Draft LAFCO Budget for fiscal year 2009-2010.
2. Find that the Draft FY 2010 Budget is expected to be adequate to allow the Commission to fulfill its statutory responsibilities.
3. Authorize staff to transmit the Draft Budget adopted by the Commission including the estimated agency costs as well as a notice of public hearing on the adoption of the Fiscal Year 2010 Final Budget to each of the cities, the County and the Cities Association.

BACKGROUND

LAFCO Budget and Adoption Process

The Cortese Knox Hertzberg Local Government Reorganization Act of 2000 (CKH Act) which became effective on January 1, 2001, requires LAFCO to annually adopt a draft budget by May 1 and a final budget by June 15 at noticed public hearings. Both the draft and the final budgets are required to be transmitted to the cities and the County. Government Code §56381 establishes that at a minimum, the budget must be equal to that of the previous year unless the Commission finds that reduced staffing or program costs will nevertheless allow it to fulfill its statutory responsibilities. Any unspent funds at the end of the year may be rolled over into the next fiscal year budget. After adoption of the final budget by LAFCO, the County Auditor is required to apportion the net operating expenses of the Commission to the agencies represented on LAFCO.

Apportionment of LAFCO Costs

The CKH Act requires LAFCO costs to be split in proportion to the percentage of an agency's representation (excluding the public member) on the Commission. Since the City of San Jose has a permanent membership on LAFCO, Government Code §56381.6 requires costs to be split between the County, the City of San Jose

and the remaining cities. Hence the County pays half the LAFCO cost, the City of San Jose a quarter and the remaining cities the other quarter.

The cities' share (other than San Jose's) is apportioned in proportion to each city's total revenue as reported in the most recent edition of the Cities Annual Report published by the Controller, as a percentage of the combined city revenues within a county. Government Code §56381(c) requires the County Auditor to request payment from the cities and the County no later than July 1 of each year for the amount each agency owes based on the net operating expenses of the Commission and the actual administrative costs incurred by the Auditor in apportioning costs and requesting payment.

FY 2009-2010 BUDGET TIMELINE

Dates	Staff Tasks / LAFCO Action
March 18 - April 8	Notice period, draft budget posted on LAFCO web site and available for review and comment on April 1
April 8	Public Hearing and adoption of draft budget
April 8	Draft budget along with draft apportionment amounts transmitted to agencies (cities and County) together with notice of public hearing for the final budget hearing
June 3	Public hearing and adoption of final budget
June 4 - July 1	Final budget along with final agency apportionments transmitted to agencies; Auditor requests payment from agencies

WORK PROGRAM FOR FY 2009-2010

LAFCO is mandated by the state to process all boundary change applications submitted. Associated with this mandate, LAFCO has several responsibilities / requirements including but not limited to adopting written policies and procedures, maintaining a web site, serving as a conducting authority for protest proceedings and conducting public hearings and providing adequate public notice. Other state mandates for LAFCO include preparation of service reviews every five years and the corresponding review and update of the spheres of influence for each city and special district under LAFCO jurisdiction within the County. The work program for FY 2009- 2010 includes:

Service Reviews LAFCO will develop and implement a program for conducting the second round of service reviews and sphere of influence updates as required by the CKH Act.

Application Processing LAFCO staff will respond to public inquiries regarding LAFCO policies and procedures for processing boundary change applications and will process all submitted applications. Application processing activity is expected to continue at existing levels for all types of applications from special districts and cities. We anticipate receiving reorganization proposals from the Santa Clara County Central Fire Protection District and urban service amendment applications from the City of Gilroy in the next fiscal year.

Island Annexations San Jose is moving forward with its third phase of island annexations which include populated islands. Staff will assist the City to coordinate service transitions for these annexations. As follow up to the island annexations in this phase, LAFCO will have to initiate dissolution of Sunol Sanitation District that would no longer have any territory remaining as a result of annexation of the islands to San Jose, thus making the district unnecessary.

Staff will also continue to assist and work with other cities processing island annexations (Los Altos Hills, Campbell and Los Gatos) to review their annexation information and finalize the annexations after city council approval.

LAFCO Policies Update / Adoption Staff will conduct a comprehensive review of all LAFCO policies and update and/or develop new policies, where needed, for commission consideration and adoption. The Commission must also consider and develop policies on consistency of proposals with regional housing, transportation and green house gas reduction goals (SB 375 and SB 215).

Public Information/Communication Staff will continue to maintain the LAFCO web site, conduct workshops and make presentations as requested by agencies, communities or other groups regarding LAFCO programs/ policies and procedures, respond to general public inquiries, maintain and update digital boundary maps for cities and special districts, publish a wall map of cities in Santa Clara County, and actively participate in CALAFCO and other conferences, training and workshops.

Administration Staff will prepare policies for LAFCO records retention and work with a consultant to develop and implement an electronic records management system. Staff will review and update as necessary the Memorandum of Understanding between LAFCO and the County for staffing and services. Other administrative work of LAFCO staff includes managing of consultant contracts, reviewing and updating LAFCO procedures as necessary, updating and maintaining the LAFCO database, managing LAFCO records,

tracking LAFCO related legislation and preparing the annual budget and preparing fee schedule revisions.

The LAFCO Annual Report which will be published at the end of the current fiscal year will document the types of applications processed and the various activities / projects that LAFCO has completed in the current fiscal year.

STATUS OF CURRENT YEAR BUDGET (FY 2009)

The approved budget for the current year is \$842,724. It is projected that there will be a savings of about \$252,951 at the end of this fiscal year.

The projected year-end expenses include an anticipated cost of approximately \$100,000 (\$82,688.25 through January 2009) for special legal counsel retained for the San Martin Incorporation Proposal. This expense has been paid out of the items for Consultant services and Intra-County Professional services. Originally, \$75,000 was allocated under Consultant Services in the current LAFCO budget for the purpose of upgrading the LAFCO website and developing an electronic records management system. During the current year, staff time and these resources have instead been focused on processing the San Martin Incorporation Proposal. Furthermore, staff time and expenses (including special legal counsel costs mentioned above) incurred through November 2008 in processing the incorporation application totaled \$210,274.34. These costs have not been paid by the incorporation proponents and are not reflected in the projected revenues, thus resulting in a loss of over \$200,000 to LAFCO and consequently to the cities and the County.

Projected Year End Savings = Projected Year End Revenue - Projected Year End Expenses

Projected Year End Savings = \$967,594 - \$714,643

Projected Year End Savings = \$252,951

This savings amount will largely be due to the following:

1. Not having spent the amount (\$100,000) allocated as reserves
2. Having a larger fund balance than anticipated from the previous fiscal year. The actual fund balance from FY 2008 was approximately \$115,000 more than projected. (\$368,800 - \$253,930)

The estimated savings of \$252,951, at the end of the current fiscal year of 2009, will be carried over to reduce the proposed FY 2010 costs for the cities and the County.

PROPOSED FY 2009-2010 BUDGET

At its February 4, 2009 LAFCO meeting, the Commission appointed a Budget Subcommittee composed of Commissioners Don Gage and John Howe. The Commission directed the budget subcommittee to develop a draft budget for Commission consideration. The Budget Subcommittee held a meeting on February 25th to discuss issues related to the budget and to formulate the budget for FY 2010. The Budget Subcommittee discussed current and future budget related issues and recommended the proposed budget.

The proposed budget for FY 2009-2010 is \$839,913 which is about the same as the current year budget. A detailed itemization of the budget is provided below.

Object 1. SALARIES AND BENEFITS \$403,923

All three LAFCO staff positions will be staffed through the County Executive's Office.

The proposed salary for the LAFCO Executive Officer position is \$108,667 and that for the LAFCO analyst is \$96,300. The County approved a revised job specification and a 10% salary increase for the position of the LAFCO Clerk in recognition of the new duties that the LAFCO Clerk has taken on in independently managing and updating the LAFCO website and using GIS for research and analytical purposes. The proposed salary for the LAFCO Clerk position is \$62,880.

Object 2. SERVICES AND SUPPLIES

5258200 INTRA-COUNTY PROFESSIONAL \$55,000

This amount is significantly lower than the current year budget because LAFCO terminated its contract with County Counsel's Office in February 2009 and currently contracts with a private firm for legal services. See *Legal Counsel* item for more detailed information.

LAFCO Surveyor \$50,000

The County Surveyor will continue to assist with map review and approval. It is estimated that about 400 hours of service will be required in the next fiscal year. The County Surveyor's Office charges a rate of \$125 per hour.

Miscellaneous Staffing \$5,000

This amount pays for the cost of reports prepared by the County Assessor's Office for LAFCO proposals. Additionally, it allows LAFCO to seek technical assistance from the County Planning Office on CEQA or other planning issues. LAFCO accesses data in the County Planning Office's GIS server. This item includes maintenance and technical assistance for GIS, if necessary.

5255800 LEGAL COUNSEL \$70,800

This item covers the cost for general legal services for the fiscal year. In February 2009, the Commission terminated its contract with the County Counsel's Office and retained Best Best & Krieger for legal services on a monthly retainer rate of \$5,900.

5255500 CONSULTANT SERVICES \$110,000

This item is allocated for hiring consultants to assist LAFCO with special projects. This year, the amount is allocated for hiring consultants to conduct service reviews and to develop and implement an electronic records management system.

5285700 MEAL CLAIMS \$750

This item is being maintained at \$750.

5220200 INSURANCE \$603

This item is based on an estimate provided by the County to cover general liability, auto liability and other miscellaneous coverages. Worker's Compensation is part of the payroll charge.

5250100 OFFICE EXPENSES \$2,000

This item is being maintained at \$2,000 and provides for purchase of books, periodicals, small equipment and supplies through the year.

5255650 DATA PROCESSING SERVICES \$3,837

This item includes funds for support from County ISD including for active directory (\$760), enterprise print management (\$454), email support and licenses (\$1,645) and LAN support (\$1,038). The current budget included funds in this category for LAFCO web site maintenance. However, the LAFCO Clerk now maintains the LAFCO website and therefore no money is allocated for that purpose.

5225500 COMMISSIONER'S FEES \$9,000

This item includes a \$100 per diem amount for LAFCO Commissioners and alternate Commissioners to attend LAFCO meetings and sub-committee meetings in the Fiscal Year 2010.

5260100 PUBLICATIONS AND LEGAL NOTICES \$2,500

This is being maintained at \$2,500 and will be used for publication of hearing notices for LAFCO applications and other projects/ studies, as required by state law.

5245100 MEMBERSHIP DUES \$7,000

This amount provides for the membership dues to the statewide association, CALAFCO -- the California Association of LAFCOs. CALAFCO. In recent years, CALAFCO has expanded its services with the CALAFCO web site, newsletter, CALAFCO Sacramento Office, legislative representation and member publications such as directories to name a few. In addition to these, CALAFCO has implemented other new programs such as the CALAFCO University, insurance and employee benefit options and research resources.

5250750 PRINTING AND REPRODUCTION \$1,500

An amount of \$1,500 is being budgeted for printing expenses for reports such as service review reports or other studies.

5285800 BUSINESS TRAVEL \$13,000

This item is for both staff and commissioners to attend conferences and workshops. It would cover air travel, accommodation, conference registration and other expenses at the conferences. CALAFCO annually holds a Staff Workshop and an Annual Conference that is attended by commissioners as well as staff. In addition, this item covers the travel expenses for commissioner's travel to the CALAFCO Board meetings. Commissioner Wilson is serving a third term on the CALAFCO Executive Board and is the current vice-president of the Board. She also serves on several committees including the CALAFCO Legislative Committee and the CALAFCO structure subcommittee.

5285300 PRIVATE AUTOMOBILE MILEAGE \$2,000

This item provides for travel to conduct site visits, attend meetings, training sessions etc.

5285200 TRANSPORTATION AND TRAVEL (for use of County car) \$923

This item would allow for the use of a County vehicle for travel to conferences, workshops and meetings.

5281600 OVERHEAD \$49,077

This is an amount established by the County Controller's Office, for service rendered by various County departments that do not directly bill LAFCO for service. This amount is significantly lower than the current year budget because it no longer needs to include the ASAP program's cost upgrade's 5-year amortization which was completed last year. Also, the projections do not include any salary increase, although there is an increase in some benefits. The FY 2010 costs include three elements:

First, the overhead includes the LAFCO share of the County's FY 2010 Cost Allocation Plan which is based on actual overhead costs from FY 2008 – the most recent year for which actual costs are available and include the following charges for LAFCO.

County Executive's Office:	\$18,096
Controller-Treasurer:	\$8,761
Employee Services Agency:	\$2,832
OBA:	\$2,133
Procurement:	\$2
Other Central Services:	\$100
ISD Intergovt. Service:	\$4,685
ISD	\$2,609

Secondly, a "roll forward" of \$9,338 is applied which is calculated by comparing FY 2009 Cost Plan with FY 2008 actuals. Since actuals exceeded the Plan by \$9,338, this amount is added to the FY 2010 Plan. This is a State requirement.

And lastly, an additional adjustment of \$521 is being made in the FY 2010 Cost Plan and is meant to reflect the increase in actual PERS costs in FY 2010. By making the adjustment at this time, the County is hoping to "flatten out" the roll-forward that would be charged in 2 years, when comparing the FY 2010 Plan to the FY 2010 actuals.

5275200 COMPUTER HARDWARE \$2,000

This item is being maintained at \$2,000 and will be used for hardware upgrades / purchases.

5250800 COMPUTER SOFTWARE \$2,000

This item is for purchases of computer software that would be required for the program and is also being maintained at \$2,000.

5250250 POSTAGE \$2,000

This amount is budgeted for the cost of mailing notices, agendas, agenda packets and other correspondence and is being maintained at \$2,000.

5252100 TRAINING PROGRAMS \$2,000

This item provides for staff development courses and seminars.

5701000 RESERVES \$100,000

This item includes reserves for two purposes: litigation reserve – for use if LAFCO is involved with any litigation and contingency reserve - to be used to deal with any unexpected expenses. If used during the year, this account will be replenished in the following year. In the past years, LAFCO has not had to use the reserves and the amount has been rolled over to the following year to offset the costs.

3. REVENUES

4103400 Application Fees \$40,000

It is anticipated that LAFCO will earn about \$40,000 in fees from processing applications. LAFCO has extended the fee waiver for island annexations, resulting in reduced revenues. The actual amount earned from fees is not within LAFCO control and depends entirely on the actual level of application activity.

4301100 Interest \$7,000

It is estimated that LAFCO will receive an amount of about \$7,000 from interest earned on LAFCO funds.

COST APPORTIONMENT TO CITIES AND COUNTY

Calculation of Net Operating Expenses

FY 2010 Net Operating Expenses = Proposed FY 2010 Expenditures – Proposed FY 2010 Fee Revenues
– Projected FY 2009 Year End Savings

FY 2010 Net Operating Expenses = \$839,913 - \$47,000- \$252,951

FY 2010 Net Operating Expenses = \$539,962

The proposed net operating expenses for FY 2010 is approximately the same (or slightly lower by \$1,832 than the current year) as that of the current year net operating expenses.

Therefore there is no significant change in the cost to the cities and the County from the previous year. Please note that the projected operating expenses for FY 2010 are based on projected savings and expenses for the current year and are not actual figures. It is therefore to be expected that there will be revisions to the budget as we get a better indication of current year expenses towards the end of this fiscal year. This could result in changes to the proposed net operating expenses for FY 2010 which could in turn impact the costs for each of the agencies. Provided below is the draft apportionment to the agencies based on the proposed net operating expenses for FY 2010 (\$539,962).

Cost to Agencies

County of Santa Clara	\$269,980
City of San Jose	\$134,990
Remaining 14 cities in the County	\$134,990

Apportionment of the costs among the 14 cities will be based on a percentage of the cities' total revenues and will be calculated by the County Controller's Office after LAFCO adopts the final budget in June. A draft of the estimated apportionment to the cities is included as Attachment B to provide the cities a general indication of the LAFCO costs.

ATTACHMENTS

Attachment A: Proposed Draft Budget for FY 2009-2010
Attachment B: Estimated Costs to Agencies Based on the Proposed Budget

**PROPOSED LAFCO BUDGET
FISCAL YEAR 2009 - 2010**

**ITEM No. 6
ATTACHMENT A**

ITEM #	TITLE	APPROVED	ACTUALS	END OF	PROPOSED
		FY 08-09	Year to	FY 2009	FY 2009-2010
		BUDGET	Date	PROJECTIONS	BUDGET
		1/31/2009			
EXPENDITURES					
Object 1:	Salary and Benefits	\$403,013	\$239,058	\$404,593	\$403,923
Object 2:	Services and Supplies				
5258200	Intra-County Professional	\$144,600	\$12,115	\$95,000	\$55,000
5255800	Legal Counsel	\$0	\$0	\$0	\$70,800
5255500	Consultant Services	\$75,000	\$72,659	\$100,000	\$110,000
5285700	Meal Claims	\$750	\$168	\$600	\$750
5220200	Insurance	\$559	\$559	\$559	\$603
5250100	Office Expenses	\$2,000	\$354	\$2,000	\$2,000
5255650	Data Processing Services	\$10,000	\$3,588	\$8,000	\$3,837
5225500	Commissioners' Fee	\$9,000	\$3,100	\$8,000	\$9,000
5260100	Publications and Legal Notices	\$2,500	\$69	\$2,000	\$2,500
5245100	Membership Dues	\$7,000	\$7,000	\$5,500	\$7,000
5250750	Printing and Reproduction	\$1,500	\$0	\$1,500	\$1,500
5285800	Business Travel	\$12,000	\$4,458	\$12,000	\$13,000
5285300	Private Automobile Mileage	\$1,500	\$384	\$1,500	\$2,000
5285200	Transportation&Travel (County Car Usage)	\$2,911	\$828	\$3,000	\$923
5281600	Overhead	\$62,391	\$31,196	\$62,391	\$49,077
5275200	Computer Hardware	\$2,000	\$451	\$2,000	\$2,000
5250800	Computer Software	\$2,000	\$0	\$2,000	\$2,000
5250250	Postage	\$2,000	\$280	\$2,000	\$2,000
5252100	Staff Training Programs	\$2,000	\$0	\$2,000	\$2,000
5701000	Reserves	\$100,000	\$0	\$0	\$100,000
TOTAL EXPENDITURES		\$842,724	\$376,268	\$714,643	\$839,913
REVENUES					
4103400	Application Fees	\$40,000	\$39,164	\$50,000	\$40,000
4301100	Interest: Deposits and Investments	\$7,000	\$6,475	\$7,000	\$7,000
Total Interest / Application Fee Revenue		\$47,000	\$45,639	\$57,000	\$47,000
4600100	Cities (Revenue from other Agencies)	\$270,897	\$270,897	\$270,897	
5440200	County	\$270,897	\$270,897	\$270,897	
Savings/Fund Balance from previous FY		\$253,930	\$368,800	\$368,800	\$252,951
TOTAL REVENUE		\$842,724	\$956,233	\$967,594	
NET LAFCO OPERATING EXPENSES		\$541,794			\$539,962
COSTS TO AGENCIES					
	County	\$270,897			\$269,981
	City of San Jose	\$135,449			\$134,990
	Other Cities	\$135,449			\$134,990

2009/2010 LAFCO COST APPORTIONMENT

Estimated Costs to Agencies Based on the Proposed Budget

LAFCO Net Operating Expenses for 2009/2010				\$539,962
Jurisdictions	Revenue per 2006/2007 Report	Percentage of Total Revenue	Allocation Percentages	Allocated Costs
County	N/A	N/A	50.0000000%	\$269,980.80
San Jose	N/A	N/A	25.0000000%	\$134,990.40
Campbell	\$37,893,677	2.2163276%	0.5540819%	\$2,991.83
Cupertino	\$55,692,872	3.2573679%	0.8143420%	\$4,397.13
Gilroy	\$85,648,532	5.0094163%	1.2523541%	\$6,762.23
Los Altos	\$35,396,719	2.0702853%	0.5175713%	\$2,794.69
Los Altos Hills	\$9,035,211	0.5284519%	0.1321130%	\$713.36
Los Gatos	\$34,668,904	2.0277169%	0.5069292%	\$2,737.22
Milpitas	\$116,952,583	6.8403294%	1.7100824%	\$9,233.79
Monte Sereno	\$2,652,541	0.1551420%	0.0387855%	\$209.43
Morgan Hill	\$67,173,041	3.9288207%	0.9822052%	\$5,303.53
Mountain View	\$156,866,835	9.1748365%	2.2937091%	\$12,385.15
Palo Alto	\$367,475,000	21.4928990%	5.3732247%	\$29,013.35
Santa Clara	\$472,938,700	27.6612660%	6.9153165%	\$37,340.05
Saratoga	\$19,106,625	1.1175094%	0.2793773%	\$1,508.53
Sunnyvale	\$248,249,502	14.5196312%	3.6299078%	\$19,600.11
Total	\$1,709,750,742	100.0000000%	100.0000000%	\$539,961.60
Total Cities (minus San Jose)				\$134,992.40